



# COMMISSION NEWS

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ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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TO: EDITORS, NEWS DIRECTORS  
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## FIVE PITFALLS IN “LEGITIMATE” INVESTMENTS

PHOENIX – Got the stock market jitters? Worried about the future economy? Planning to move some money around? April is Arizona Savings and Investment Month, so the Arizona Corporation Commission’s Securities Division is offering a list of common pitfalls to avoid when investing your hard-earned money.

- 1. Trusting commissioned salespeople who pose as impartial advisers.** Consumers tend to be trusting, which is why confusion can result from the increasingly common use of titles such as “investment consultant” and “financial adviser” by commissioned investment salespeople. Always find out how your salesperson is compensated. A commission may be an incentive to sell you something that might not fit your investment goals.
- 2. Not understanding the risks inherent in uninsured products sold by banks.** Average investors usually trust their bankers and often buy mutual funds sold by banks. It is vitally important to remember that bank-sold mutual funds do not carry FDIC insurance and putting your money in any mutual fund, including those sold by banks, may result in the loss of principal.
- 3. Believing in an investment without getting proper disclosure.** Some financial professionals make unwarranted claims in their sales pitches. This “bad information” problem is compounded by prospectuses (and other investment disclosure documents) that are virtually impossible for typical investors to understand. The Securities Division of the Arizona Corporation Commission actively supports efforts to crack down on abusive sales practices and to simplify prospectuses through the use of “plain English.”

**4. Being unaware of the risks in brokered Certificates of Deposit (CDs).** Traditional CDs have long been considered to be highly liquid, low risk investments. Today there are new hybrid CDs. You must be sure to learn about all of the features of an investment *before* handing over your money. Of course, it is important to know whether your deposit is fully insured by the FDIC. Furthermore, don't mistakenly believe that a "callable" CD means you can redeem it early. Most, if not all, callable CDs are callable by the bank only. Many of these products also have maturity dates extending out twenty years or more. Finally, secondary markets (people who buy CDs that haven't matured) may not exist if you need to redeem your CD early – so you could lose some of your principal as well as interest if the only way to redeem it is to sell it at a deep discount.

**5. Accepting account statements that do not clearly indicate fees, commissions and valuations** (particularly the valuations of products that are considered illiquid or not easily marketable). Brokerage and mutual fund account statements often do not reveal commissions paid or the ongoing management and/or administration fees that are inherent to some investments. Additionally, due to the lack of a market for a specific product, account statements will often reflect the price that you paid for an investment as its "current value" when, in fact, its actual value may be much lower. Accordingly, it is always important for you to ask questions!

April is Arizona Savings & Investment Month. For more information, call Heather Murphy, Arizona Corporation Commission public information officer, at 602-542-0844 or Frank Marley, investor education coordinator for the Securities Division, at 602-542-0428. A calendar of Savings and Investment Month activities is available at the Securities Division website at [www.ccsd.cc.state.az.us](http://www.ccsd.cc.state.az.us).